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Great presentation. Who should lead/govern the ecosystem?

By ‘lead’ we are assuming you are referring to the ‘owner’ of the service agreement reported on a balance sheet as an asset. Note that only one entity can ‘govern’ the ecosystem to deliver a comprehensive long-term, fixed-fee, performance assured service agreement to a machine operator. That owner may align themselves with many resource providers, but there is only one entity accountable for the profit/loss and cash flow of the agreement. It could be an OEM, it could be a large distributor of an OEM, it could be a major component manufacturer employed by the OEM in their manufacturing process, it could be a lessor, it could be an independent party, it could be an LLC/JV and ??? These are strategic issues of spreading the risk and profits that only leadership can address.

Of course a machine operator/owner can choose to engage in many agreements for a machine, segmented by the major subsystem providers of the machine; but that can become extremely cumbersome for the machine operator to administratively manage.

Kevin, should your RISK/REWARD factors be part of a manufacturer's segmentation technique? Thinking of safety and general external factors like economic stability etc?

Absolutely, however, segmentation can be used in so many different ways - some helpful, others less so. External factors certainly lend themselves to the more traditional segmentation criteria such as geography, company size etc, but issues arise when you need to combine these categories to form a cohesive view. An often overlooked segmentation criteria is 'Why people buy', and this is perhaps one of the most powerful - certainly in developing the value story and pricing of value.

Another segmentation approach is relative to the machine model. Issues such as its current stage of the learning curve, the life cycle of the technology employed, its current production life cycle stage, the size of the installed base and others.

Companies start manufacturing first and then change to services. So there may not be an initial vision of services. At what stage you feel this change can happen?

Agreed that this is the way that most machine manufacturing businesses have evolved up until now; though one could acknowledge that limited warranties and transaction-based services, such as break/fix have always existed. If, however we stay with your original hypothesis, specifically focused on long-term service agreements, I also agree that the initial vision very probably did not, and indeed still does not, include advanced services. I do not think there is a 'one size fits all' answer - but I would say that the sooner it is considered and refined the better as advanced services will often provide greater opportunity for profitable long term additional revenue. And if this is converted into either a fixed fee, multi-year service agreement or a full servitization model, then it will lock your competitors out as you evolve and perfect the servitization business model further. Conversely, if your competitors beat you to it then, you will be locked out - perhaps for many years…or your product competitors may acquire you.

How do you deal with the long-term risk of variable payment streams generated by usage and outcome payment models?

There are several ways and it's a blend of the different pricing strategies. But these can be categorized as a mixture of fixed fee with an escalator, or a minimum price per month /year. There are different ways that this can be described; for example its £X per unit and our prices start at £Y per month which includes Z units. Another option is shift the value pricing to something that you have greater control over such as the performance of a machine, or its availability/uptime level.

Note that one of the challenges in measuring performance in this area is the calendar time that usage is measured and the acceptable range during this period. For example you may charge a £100 fixed fee per hour of operation, with a minimum of 100 hours per month and a maximum of 200 hours per month for any single month or you could charge that same fee for a rolling 6 month minimum of 600 hours and maximum of 1,200 hours, with potential 'wild' use swings in any single month….big difference in risks between the 2 scenarios.

How do you recommend testing financial models with customers and what should you be looking to learn when testing?

This can be tricky, so instead I would advocate a slightly different approach. Understanding the costs at a granular level and trying to calculate the associated occurrences over time. Some will be easier to calculate with a degree of comfort - and these are the ones I would begin to offer to customers. The ones that are harder to cost /predict, such as known, but not scheduled events, I might consider pricing these at a higher level or not offering these at all. Running this model - perhaps as a fixed fee, multi-year service agreement will allow you to sell advanced services and learn 'on the job'. You could also apply an open book philosophy that shares selective savings by the agreement owner with the customer. If you have the cost data and you are prepared to share your assumptions with the customer as a partner they might be more open to sharing the risk / reward.